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**CONGRESS, DEFENSE, AND
THE BUDGET ENFORCEMENT ACT
IN 1992**

**Richard Doyle
and
J. L. McCaffery**

July 1993

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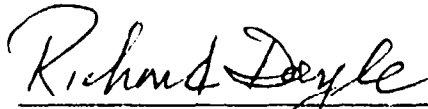
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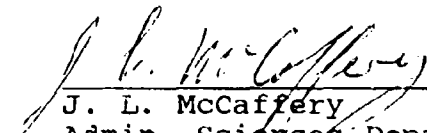
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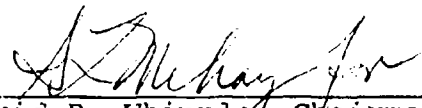
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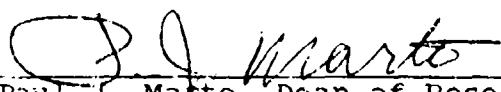

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by

Richard Doyle and J. L. McCaffery

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Naval Postgraduate School

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Congress, Defense and The Budget Enforcement Act in 1992

Richard Doyle and Jerry McCaffery

In 1992, the Congressional budget process was characterized by business as usual. President Bush proposed a sweeping economic plan and asked for its immediate consideration, but it was largely ignored as Congress focused on the same issues which had preoccupied it for the previous two years. These included defense spending, the deficit, entitlements, new taxes and maintaining the discipline of the budget process as modified by the Budget Enforcement Act of 1990 (BEA).¹ In 1992 this discipline centered on the preservation of the walls between the discretionary accounts, while retaining the deficit-neutral requirement for mandatory spending and tax expenditures. On the whole, the BEA budget controls held, although the operating deficit increased.

This report examines the major budget developments of 1992 within the framework of the BEA. These developments are then assessed to identify the limits of spending control as required by the BEA. Spending control under the BEA has been essentially confined to defense cuts made possible by the end of the Cold War. The law compels little more in the way of deficit reduction. Significant growth in other areas of the budget and a reluctance to raise taxes to reduce the deficit have defeated further attempts at deficit reduction.

The Setting

Federal budget policy makers approached the 1992 budget process in a context which included 12 years of deficits greater than 2.7 percent of GDP. While at 4.9 percent of GDP the 1992 deficit would not be the largest in history, it was substantial and increasing. Moreover, while revenues seemed stable at 18 percent of GDP, spending appeared to be increasing to a new high of 23.5 percent of GDP. Chart 3-1 from The Budget of the United States, January 1992, illustrates these trends.

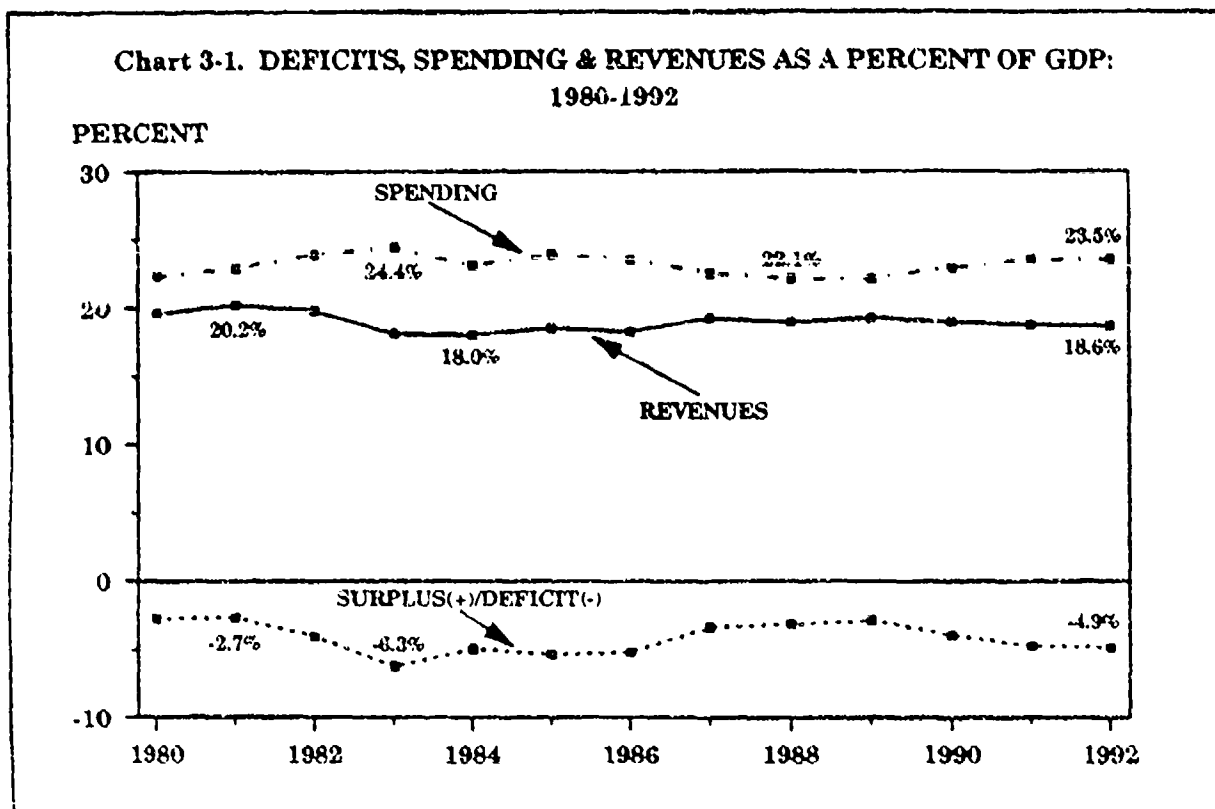
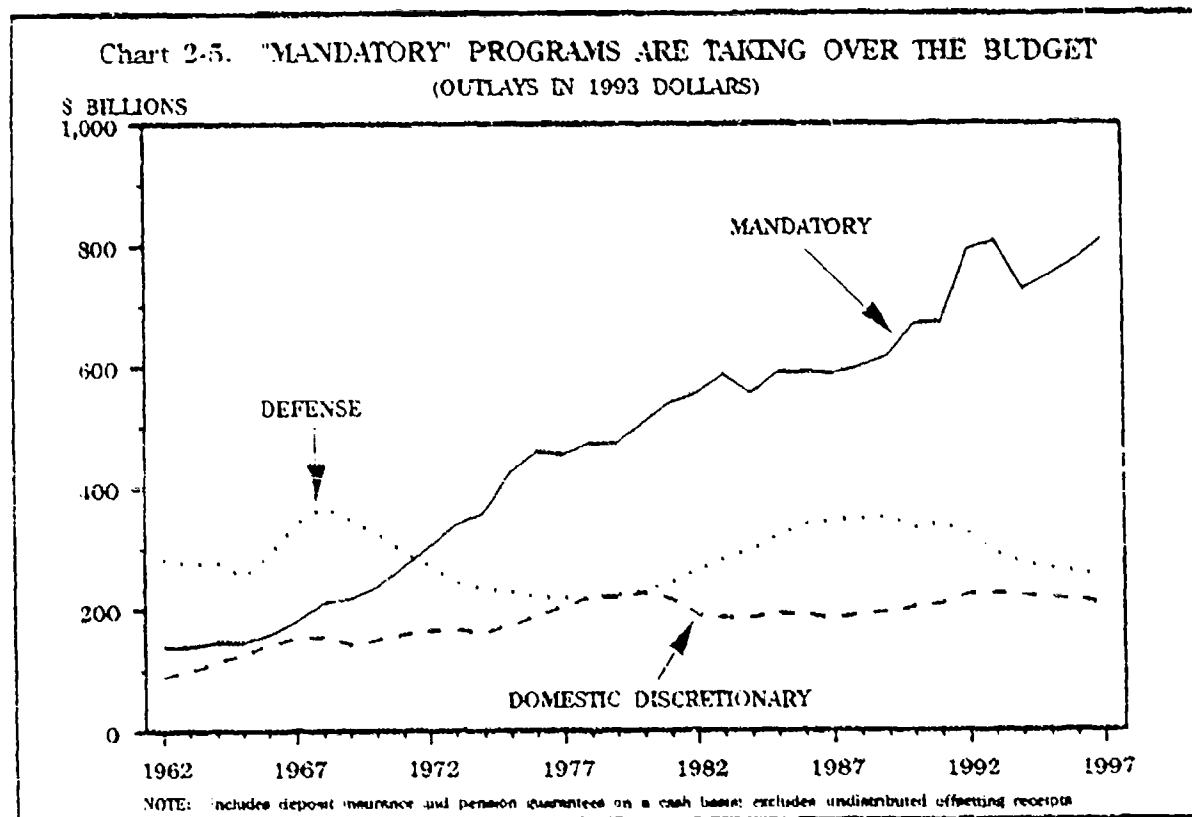


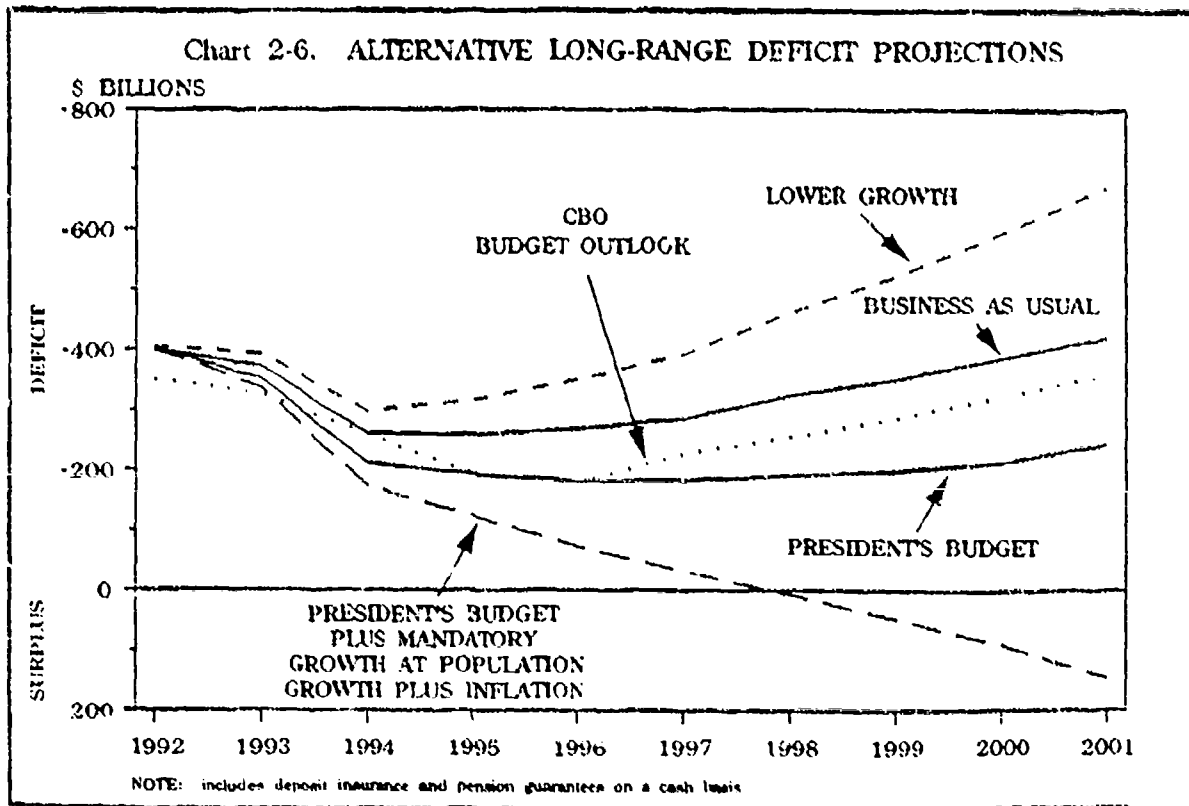
Chart 2-5, also from The Budget of the United States 1992, takes a slightly longer view to indicate in broad terms how the bulk of expenditures has changed from domestic discretionary and

defense expenditures to mandatory expenditures, with mandatory expenditures increasing dramatically in a trend that begins in the mid 1960's as defense expenditures decreasing from 1987. In 1992, congressional action would reflect the significance of accelerating mandatory payments in budget deliberations.

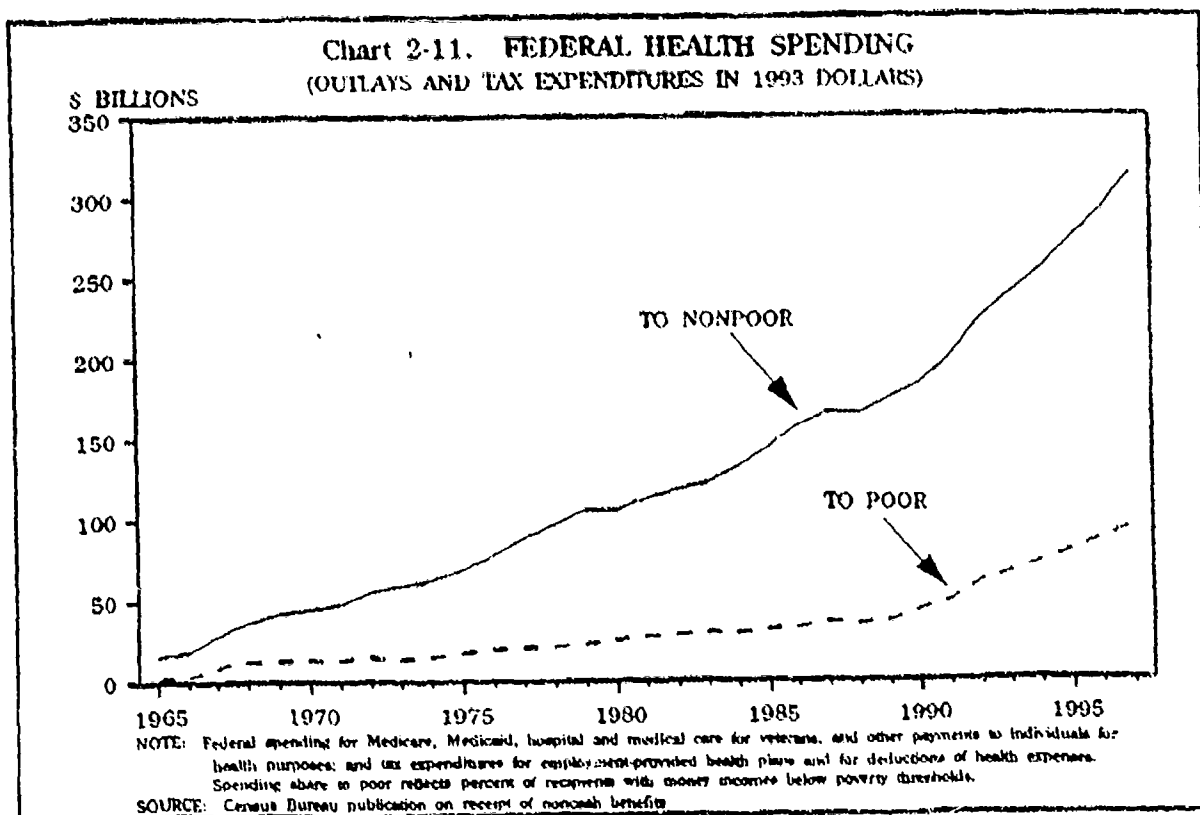


As is usual, Congress was faced with several long range deficit projections. Chart 2-6 (Budget of the United States 1992), shows five such projections. The only projection which would decrease the deficit to zero by 1998 included a cap on mandatory programs, allowing only demographic growth and the cost of inflation. Although the President favored such a cap, he did not

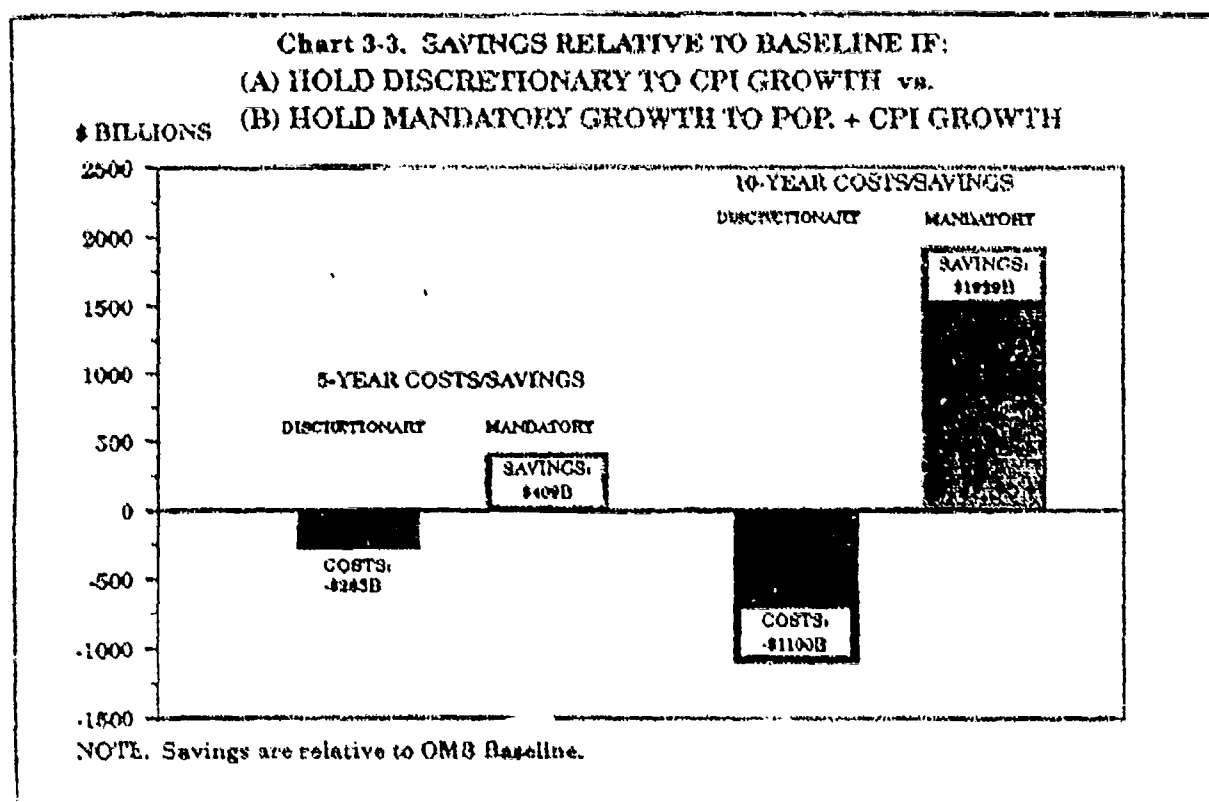
propose it in his budget for FY93. As proposed, the President's budget would bring the deficit down to the \$200 billion range. If no policy changes were made, then the deficit would range in the \$250 billion area (business as usual). A lower growth economy, of course, would increase the deficit.



One obvious target of budget reduction was in the area of health care costs. Chart 2-11 (Budget of the United States 1992), indicates that a substantial share of health care spending goes to the non-poor and that the rate of increase out to 1995 is greater for the non-poor than for the poor. Health care cost containment was an issue with which Congress would begin to cope in the 1992 process.



While Congress could do little to contain health care costs in 1992, it was obvious that the mandatory area was the major driver for budgetary increases. Chart 3-3 (Budget Baselines, Historical Data, and Alternatives For the Future 1993) indicates that if discretionary spending were capped at the rate of growth of the consumer price increase, it would actually cost the federal government money in the short and the long run, meaning that these programs were currently growing at less than the rate of inflation. Whereas, if the mandatory accounts were allowed to have both an adjustment for full inflationary growth and for demographic growth in the number of persons qualifying for mandatory programs, substantial savings would accrue. This area of the budget was increasing faster than inflation and demographic trends combined.



The other significant factor that policy makers had to face in 1992 was the perception that peace had been achieved and that there ought to be forthcoming a significant peace dividend from the defense budget accounts.

Defense

The BEA caps on discretionary spending were set in 1990 so that all of the savings from this portion of the budget would come from defense.² The \$289 billion BEA cap for the third year (FY 1993) represented a five percent cut in defense. The Bush defense budget for FY 1993 would add further savings by funding defense \$7.5 billion below this cap.³ The Bush plan would continue the build-down that began in 1985.⁴ For the FY 1993-97 period, the Bush

budget would cut \$50.4 billion, including a proposed \$7.9 billion rescission package which would terminate, among other systems, two Seawolf submarines. The Bush defense proposal, CBO noted, reflected "the end of the Cold War. . . . By 1997, defense would reach a level 18 percent lower than an average budget for the last one and half decades of the Cold War."⁵

In its budget resolution, Congress cut defense another \$3.6 billion below the Bush request. Congress considered, but ultimately rejected, the notion that these savings should be spent rather than saved. President Bush supported the use of additional defense cuts for deficit reduction.

Evidence regarding the general threat from the former Soviet Union continued to suggest that reductions in defense in addition to those initiated in 1990 and institutionalized in the BEA discretionary caps, would not jeopardize US national security. In January, the CIA said that the military danger from former Soviet Republics "has all but disappeared for the foreseeable future."⁶

In February, President Bush announced an agreement, negotiated with President Yeltsin, for strategic arms cuts of 50 percent or more beyond START, "the deepest cuts in the history of strategic nuclear weapons."⁷ Eight months later the Senate ratified this agreement, approving nuclear weapons cuts in excess of those negotiated during the nine years of talks necessary to produce the original START agreement. The 1992 agreement was the first treaty to cut, as oppose to limit, strategic or long-range nuclear weapons.⁸ A symbolic indication of the transformation of

the security environment was the announcement by DoD that it was discontinuing publication of its annual depiction of the Soviet threat, Soviet Military Power. This volume had been issued since 1981. Following the failed coup in the USSR in 1991, it was retitled Military Forces in Transition. It has now been dropped.

There were also indications that the BEA defense cuts may have been too severe, reducing the ability of U.S. forces to respond to residual threats and emerging problems. General Powell, Chairman of the Joint Chiefs of Staff, indicated that "in a very real sense, the primary threat to our security is instability and being unprepared to handle a crisis or war that no one expected or predicted."⁹ The situation affecting the status of nuclear weapons in the former Soviet Union is said to be "as unstable and potentially dangerous as when the former superpower collapsed."¹⁰ CIA Director Gates testified to Congress that Iran was developing weapons of mass destruction. He estimated that between 1990 and 1995, Iran will spend on defense the same amount that Bush proposes to cut from the US defense budget between 1993 and 1997.¹¹ Gates also indicated that North Korea could have a nuclear weapon within months or a few years.

The Chairman of the House Armed Services Committee, Les Aspin, argued that the Bush defense budget was too large and insufficiently linked to a specific threat to U.S. national security. It is, Aspin said, "a one revolution budget in a two revolution world."¹² Aspin's defense budget, based on a House Armed Services Committee analysis using Iraq as a threat measuring

device, would cut roughly twice as much from defense as the President. Dod refers to the Aspin budget as "not a serious document."¹³ However, the day after the Aspin defense plan is released, the House Budget Committee incorporated it into their budget resolution.

The Senate budget resolution supported the Bush Defense budget. It rejected an amendment by the Chairman of the Senate Budget Committee, Senator Sasser, which would have cut twice as much. On the Senate floor, the budget resolution defense number remained intact, as another amendment to double the Bush cut is defeated. The Senate Armed Services Committee adopted the defense budget stipulated in the budget resolution, while calling for more cuts in the outyears as well as a review of roles and missions for FY 1994.

In the conference on the budget resolution, Congress agreed to cut defense \$11.6 billion below the BEA cap. All House Republicans voted against the conference agreement, which barely passed in that chamber, 209-207.

Another major defense cut took the form of a rescission bill worth \$8.3 billion. President Bush requested a \$7.9 billion rescission, composed almost entirely of defense programs. Congress approved an additional \$0.4 billion in rescissions, about 89 percent of which was in defense.¹⁴ Congress restored one of the Seawolf submarines proposed for cancellation in the President's package, although most agree that there was no foe against which this boat would merit deployment; rather it was restored by

Congress as a jobs and industrial base issue.

The outcome for Congress and the administration on defense was a draw. The administration defense request was cut, despite the fact that it came in below the BEA cap. However, an initiative supported by the Democratic leadership in Congress, which would have spent these savings rather than using them for deficit reduction, was defeated. The \$11.6 billion in additional savings from defense in FY 1993 represents a modest extension of the spending control approach established in 1990.

Retaining Walls

The BEA divided the discretionary portion of the budget into three categories--defense, domestic and international affairs--and set spending caps for each category. These divisions were to last through FY 1993, the last year of the Bush presidency. This arrangement provided a compromise on the defense versus domestic spending issue which had contributed to the budget gridlock that dominated budgeting during the 1980s. The BEA walls also prevented Congress from moving unspecialized funds from one category of discretionary spending to another. The only alternative to spending within the designated budget categories was deficit reduction.¹⁵ Tested in 1991 following the unsuccessful coup in the former Soviet Union, the BEA walls had proved surprisingly resilient.¹⁶

However, in 1992 conflict over the need to retain the walls escalated significantly, centering on the need to reexamine defense spending in light of the failed Soviet coup. It began even before the 1991 budget process had been concluded. In the fall of 1991,

Congressman Barney Frank, Democrat of Massachusetts, announced "Operation Jericho," a plan by House Democrats to remove the walls separating the defense budget from other discretionary spending.¹⁷ On September 12, the Senate urged the President and congressional leaders to review the spending limits for domestic programs in light of changes in the global situation.¹⁸ Senator Bill Bradley, Democrat of New Jersey, argued that "If the end of communism in the Soviet Union isn't a pretext for changing procedural agreement in Congress, I don't know what is."¹⁹ Opposing the proposal to remove the walls, Senator Richard Lugar, Republican of Indiana, warned that such action would cause spending restraint to be abandoned: "'You're going to have a flying wedge here' that could lead to everything from more unemployment benefits to 'flood relief in Mississippi.'"²⁰ In December, Senator Byrd, Chairman of the Senate Appropriations Committee, wrote President Bush urging him to drop the walls in order to shift funds from defense to the domestic discretionary accounts.²¹ President Bush hinted that he might do just that in a television interview on January 3, 1992.

When he released his proposal for defense spending in January, however, President Bush took a different approach. Instead of agreeing to drop the walls, which would allow defense funds to be diverted to domestic or international purposes, the President adhered to the premise of the BEA. The difference between the BEA defense cap and the amount requested--approximately \$7.5 billion--was to be used for deficit reduction, not spent on non-defense programs.²²

The size of the defense budget in 1992 was directly linked to the issue of whether the walls would remain in place. If the walls were taken down, it seemed clear that the defense budget would be cut far beyond what the President proposed. If the walls were retained, the defense budget would be determined by other considerations, including the threat, the political impact of the large cuts in defense spending that were already underway, and the recession.²³

The Congressional Budget Office recommended retaining the walls. CBO Director Reischauer told the Senate Armed Services Committee that even the larger cuts in defense proposed by some in Congress would not prevent major reductions in non-defense discretionary spending in the outyears, if the overall cap on discretionary spending was retained.²⁴

Nonetheless, the drive to take down the walls and shift defense funds to domestic discretionary programs continued. In March, fifteen House committee chairpersons, including 12 of the 13 appropriations subcommittee chairs, announced their support for legislation which would remove the BEA walls in 1992, a year before they would otherwise expire.²⁵ The Chairman of the Defense Appropriations Subcommittee did not support the measure. The walls bill, sponsored by Congressman John Conyers, Democrat of Michigan, would allow Congress to spend a portion of defense savings on non-defense discretionary programs and allocate the remainder to deficit reduction. The New York Times dubbed the Conyers bill a "tastes great, less filling bill" that allowed Congress to both

reduce the deficit and address social needs.²⁶ The Times also commented that the "largest thing standing in the way of financing a new domestic agenda in America is the annual allocation for defense" and that "defense is the only pool of money that Congress can raid to get more resources."²⁷

In early March, the House passed a double option budget resolution, with both options cutting defense by more than twice as much as the Bush budget. The options were designed to address the possibility that the Conyers bill would be successful in bringing down the walls. Option A allocated 75 percent of the "savings" from defense spending to domestic programs, the remaining 25 percent to be used for deficit reduction, on the assumption that the walls would come down. Option B devoted all of the savings to deficit reduction. On March 6, House Republicans forced a floor vote on the two options. Option B won by a vote of 224 to 191, gathering support from Democrats who were concerned about the deficit and the impact of further defense-related job losses in their districts. This vote, suggesting strong support for deficit reduction, fear of the economic impact of further defense cuts and reluctance to abandon the spending restraint implicit in the BEA walls, signalled the fate of the Conyers bill.

After being postponed four times, the Conyers bill came to a vote and failed, 187-238, embarrassing the House leadership. This meant that any savings from defense would be allocated to deficit reduction, as prescribed by the BEA and in accordance with the vote for option B on the House Budget Resolution. Defeat of

the Conyers bill meant that domestic discretionary appropriation bills would be constrained by the tight cap imposed by the BEA since no new funds could be transferred from defense. For those accounts with delayed obligations from FY 1992, the cap would be even tighter.²⁸

The Senate had defeated its version of the Conyers bill earlier, 50-48, on a procedural vote. Opposed to bringing down the walls, the Chairman of the Senate Armed Services Committee, Senator Nunn, said, "If the bill were passed, the defense budget will become the equivalent of the House Bank."²⁹

Following the failure of overt efforts to reallocate funds among the BEA discretionary categories agreed to in 1990, other, more oblique initiatives to the same effect were undertaken during the remainder of the budget process. Examples of these efforts include the following:

- an assumption in the House Budget Resolution that \$3 billion would be transferred from defense to domestic accounts to fund defense conversion activities;

- a transfer of \$400 million from foreign aid to domestic spending on the House transportation appropriations bill;

- an amendment to the Senate defense authorization bill which would have allowed DoD to spend up to \$300 million for peacekeeping to be scored against the international cap rather than defense;

- an amendment to the Senate defense appropriations bill requiring DOD to transfer \$185-200 million to a domestic agency for breast cancer research;³⁰

-the allocation of defense funds to three non-defense subcommittees by the Senate Appropriations Committee "to ease the burden on domestic appropriations by using defense money to pay costs that are viewed as legitimately defense-related but which have generally been paid for with domestic money."³¹

-the inclusion in the defense appropriations conference agreement of \$1.8 billion for "economic conversion," some of which was to be transferred from DoD to domestic agencies such as Labor and Commerce.

Thus, at every step in the process, in both chambers and in a variety of legislative vehicles, attempts were made to evade the discipline of the BEA represented by walls between discretionary spending categories, but those efforts failed. Support for these unsuccessful efforts was fueled by the Appropriations Committees, which chafed significantly under the domestic discretionary spending cap for FY 1993.

The BEA caps had increased domestic discretionary spending more than \$40 billion above the CBO baseline for the FY 1991-93 period.³² However, most of this growth occurred in the first two years, and for FY 1993 the surplus was gone. The FY 1993 cap, already tight, was even more restrictive because Congress had deferred outlays for FY 1992 spending until FY 1993. The acting Chairman of the House Appropriations Committee warned his colleagues that "'This is going to be the most difficult year we've had since I've been on the committee, [and] I've been on the committee for 38 years.'"³³ The ranking Republican on the

committee, Representative Joe McDade of Pennsylvania, praised the Democrats for giving committee Republicans more access to spending data, but then noted, [It's] "shared harakiri."³⁴ For the first time in its 127 year history, the House Appropriations Committee held a press briefing to explain the difficulty it faced in meeting the FY 1993 cap.³⁵

Congress devoted considerable time and energy attempting to modify these restraints, directly and indirectly. However, spending discipline was maintained, and Congress completed all appropriations bills by Oct 5, the earliest adjournment since 1988.

Two factors explain the failure of the effort to remove the walls.³⁶ First, the deficit estimates were grim; the President's Budget predicted a deficit of \$399 billion for 1992. Second, there was a reluctance to suffer the political consequences if the walls came down and larger cuts were taken in defense.

The recession, which also affected these developments, cut two ways. It encouraged the notion of increased domestic spending as part of a fiscal stimulus approach to ending the recession. However, it made it difficult to vote for such spending if the funds were to come from defense. Defense jobs--defense industry, active duty military and DoD civilians--were already being cut dramatically and bases were closing. In this environment, accelerating the defense drawdown significantly beyond the Bush plan was not perceived as a viable political strategy.

In the end, Congress passed, and the President signed, a set of authorization and appropriation bills which not only met, but

were below the BEA caps for discretionary spending. In fact, Table 1 indicates that cumulative discretionary spending was held below the cap on both budget authority and outlays, and that none of the three separate categories of discretionary spending exceeded its BEA cap, either in budget authority or outlays.

Table 1

SAVINGS UNDER THE BEA DISCRETIONARY CAPS, FY 1993

(dollars in billions)

	Defense	International	Domestic	Total
BEA Limits				
Budget Authority	289.7	35.1	206.7	531.4
Outlays	299.9	20.6	229.5	550.0
Total Appropriation				
Budget Authority	275.9	33.7	205.7	515.2
Outlays	289.9	20.4	229.5	539.9
Savings Under the BEA Limits				
Budget Authority	-13.8	-1.4	-1.0	-16.2
Outlays	-10.0	-0.2	0	-10.1

Source: Congressional Budget Office, Final Sequestration Report For Fiscal Year 1993, October 19, 1992.

Senator Byrd, who began the year insisting that defense savings be spent on domestic discretionary programs rather than used for deficit reduction, ended the year praising Congress for its frugal conduct in making appropriations. Necessity--devoting defense savings to deficit reduction--had become a virtue. Not only did Congress appropriate below the BEA caps, the Senator

noted, but "to those who continue the old chant about the budget-busting ways of Congress, let me refer again to the fact that the appropriators have spent \$8.7 billion less than the President requested."³⁷

It is clear from Table 1 that restraint in discretionary spending under the BEA in 1992, which resulted in deficit reduction in excess of the amount assumed by the caps, took the form of defense cuts. Of the \$8.7 billion total cited by Senator Byrd as being below the Bush request, 74 percent was taken from appropriations for defense and military construction.³⁸

In summary, Congress found a way to abide by the BEA walls and caps, despite the restraints they imposed. These restraints were the price Congress agreed to pay for deficit reduction when they were accepted in 1990.

Entitlements

In response to a Bush budget which made minimal demands in the area of entitlement spending for FY 1993, Congress stood pat. Conflicts over cuts in programs or increases in taxes necessary to comply with the BEA's PAYGO requirement were muted, as compared with 1991, while debate over amending the BEA to cap entitlements generated moderate interest.

The Bush administration proposed several changes in entitlement programs which would have lowered the entitlement baseline by reducing benefits, chiefly in Medicare and crop support payments to wealthy recipients. Combining FY 1992 and FY 1993 impacts, as dictated by the BEA, the president's budget would have

reduced entitlement spending by \$6.5 billion.³⁹ The administration also approved two entitlement bills extending unemployment benefits, both of which, as new entitlements, came under the BEA PAYGO rules. In 1991, similar legislation was the focus of protracted and bitter debate over the question of whether benefits should be paid for or declared an emergency, the options available under the BEA.⁴⁰

The 1992 extensions were much less controversial. The first bill, providing \$2.7 billion in new benefits, was paid for with a portion of the 1991 PAYGO surplus and a small tax change affecting corporations.⁴¹ The second bill, costing \$5.5 billion over six years, was offset by increases in revenues.⁴²

On the procedural front, the administration proposed, but did not strongly support, a radical change to the BEA approach to entitlement spending. Under the BEA, existing entitlements are allowed to grow without limit; only new programs are subject to the PAYGO deficit neutral rule.⁴³ In its budget submission to Congress, the administration proposed amending the BEA to subject entitlement spending to caps enforced by sequestration.⁴⁴

Congress ignored President Bush's major programmatic changes to entitlement spending. Although the congressional budget resolution provided for \$2 billion in entitlement savings, implying that programmatic cuts would follow in the budget process, this initiative was not pursued. Congress did extend unemployment benefits, funded as noted above. In fact, these two bills were the only entitlement measures of any consequence to pass Congress in

1992. A number of other entitlement bills passed--more than 50 by October--but the funding implications of the non-unemployment bills were either negligible or non-existent.⁴⁵

On the other hand, several bills passed the House which would have increased entitlement spending. The House approved the Older Americans Reauthorization Act, raising the earnings cap affecting Social Security recipients and increasing entitlement spending \$7.3 billion.⁴⁶ This bill, as well as another Social Security measure affecting the so-called "notch babies" which would have increased entitlement spending, was dropped in the Senate.

Congressional action on caps for entitlement spending took two forms. The House initiative was found in a report issued by the Chairman of the House Budget Committee.⁴⁷ The Committee endorsed a cap "enforced through the budget process, on the growth of entitlement programs, in order to reduce their underlying growth rate to a sustainable figure."⁴⁸ However, the legislation necessary to implement this conclusion was not reported out of committee.

In the Senate, the notion of capping entitlements to cut the deficit made it to the floor. An entitlement cap amendment co-sponsored by Senators Sam Nunn, Democrat of Georgia, and Pete Domenici, Republican of New Mexico, was offered to the Senate budget resolution for FY 1993. The amendment was withdrawn when it became apparent that support for its implementation was not forthcoming.⁴⁹

Table 2

DISCRETIONARY AND ENTITLEMENT SPENDING
UNDER THE BUDGET ENFORCEMENT ACT, 1990-1992

(dollars are outlays in billions)

	1990 (FY1991)	1991 (FY1992)	1992 (FY1993)*	Absolute Change 1990-1992
<u>Entitlements</u>	634.2	711.2	770	+135.8
Percentage of Total Spending	47.9	51	52	+4.1
Percentage of GDP	11.3	12.1	12.5	+1.2
<u>Discretionary</u>	534.8	537.4	547	+12
Percentage of Total Spending	40.4	38.9	37	-3.4
Percentage of GDP	9.5	9.2	8.9	-0.6
<u>Deficit</u>	269.5	290.2	310	+40.5
Percentage of GDP	4.8	4.9	5.0	+0.2

*Assumes compliance with discretionary spending caps.

Source: U.S. Congress, Congressional Budget Office, The Economic and Budget Outlook: Fiscal Years 1994-1998, January, 1993.

The notion of entitlement caps was inspired by the growing disparity between spending for entitlements and discretionary programs, coupled with estimates of increasing deficits. Table 2 indicates the size of the gap during the first three years of the BEA. The gap is projected to widen significantly over the decade that follows, as shown by Table 3. By 2002, CBO estimates that entitlement spending will make up 59.3 percent of total spending, while the discretionary portion drops to 27.2 percent, or less than

half the share of entitlements. Entitlement spending will grow \$642 billion over this decade, nearly five times the \$129 billion increase projected for discretionary spending. The gap between these two categories of spending widens dramatically despite the assumption in the estimates that discretionary spending increases

Table 3

SPENDING FOR DISCRETIONARY AND ENTITLEMENT PROGRAMS,
1993-2002

(dollars are outlays in billions)

	1993 (FY94)	2002* (FY03)	Absolute Change	Percent Change
<u>Total Spending</u>	1501	2457	+956	+63.7
Percentage of GDP	23.1	25.4	+2.3	+10.0
<u>Entitlements</u>	815	1457	+642	+78.8
Percentage of Total Spending	54.3	59.3	+5.0	+9.2
Percentage of GDP	12.5	15.1	+2.6	+20.8
<u>Discretionary</u>	539	668	+129	+23.9
Percentage of Total Spending	35.9	27.2	-8.7	-24.2
Percentage of GDP	8.3	6.9	-1.4	-16.9
<u>Deficit</u>	287	655	+368	+128.2
Percentage of GDP	4.4	6.8	+2.4	+54.5

*Assumes discretionary spending keeps pace with inflation after the BEA caps expire in 1995.

Source: Congressional Budget Office, An Analysis of the President's February Budgetary Proposals, March, 1993, Table A-6, The Ten-Year Budget Outlook.

to keep pace with inflation once the BEA caps expire in 1995. By 2002, entitlements as a percentage of GDP grow by 20.8 percent, while discretionary spending declines by 16.9 percent.

In sum, congressional actions on entitlements in 1992 were quite conservative and entirely compliant with the BEA. As in 1991, Congress ignored administration proposals for cuts in selected entitlement programs. On a micro-level, the PAYGO provisions of the BEA appear to be working, that is, no new entitlement programs were added which would increase the deficit. On a macro-level, projections of rapidly growing spending for existing entitlement programs, coupled with rising deficits and the BEA constraints on discretionary spending, triggered concern that entitlement spending control under the BEA was inadequate. This accounts for the debate on entitlement caps and sequesters.

The Deficit

OMB projected a deficit for FY 1992 of \$399.4 billion, another new record.⁵⁰ The debt would top \$4.1 trillion, more than four times the level when President Reagan took office.⁵¹ The size of the deficit made it difficult for legislators to justify relaxation of the BEA rule against spending savings below the caps. It encouraged supporters of the balanced budget amendment, which came within nine votes of passing in the House, and enhanced rescission powers for the President, which the House approved. It also bolstered the arguments of those who proposed capping entitlements (Panetta in the House, Nunn-Domenici in the Senate) as part of a long term deficit reduction plan, even though neither approach was

successful in 1992.⁵²

Such deficit reduction as occurred in FY 1993 was as required by the BEA, i.e., the result of funding discretionary programs, primarily defense, at or below the cap levels and maintaining deficit neutrality for new entitlement and tax legislation. In the face of a mild but persistent recession, these relatively anemic measures were not sufficient to prevent another record deficit. Moreover, they left in place a structure of spending which allowed existing entitlement programs to grow without limit. As Table 2 indicates, spending for entitlements increased more than ten times as much as discretionary spending during the first three years under the BEA.

The approach to deficit reduction taken in 1992 was based on a unique set of circumstances. Defense savings were made possible by a 25 percent reduction in forces written into the BEA in 1990 when it became apparent that the Cold War was over. A plan to cut defense spending over five years, initiated in 1991, reduced defense outlays more than \$350 billion below real spending set in 1990, when the Cold War ended. As CBO reported to the Senate Armed Services Committee, "a large peace dividend was clearly built into the budget projections as of last year."⁵³ Future efforts to cut the deficit would have to transcend the spending control tactic established in the BEA which relied so heavily upon the Peace Dividend.

Taxes

On the tax front, 1992 witnessed sound and fury, but nothing

significant in the way of results. Tax policy was driven by economic and social concerns, rather than the deficit, and consequently took place outside the budget resolution. President Bush called for a tax cut to stimulate the economy as the budget year began and a congressional bidding war to cut taxes ensued. The House and Senate passed the Tax Fairness and Economic Growth Act of 1992, a \$77.5 billion tax bill, which Bush immediately and successfully vetoed. This tax bill, which would have violated the BEA's deficit neutral rule by increasing the deficit slightly over four years, was passed before the budget resolution passed.⁵⁴

Congress passed a second tax bill, HR 11, the Urban Aid/Tax bill, after the budget resolution was complete. HR 11, stimulated by the Los Angeles riots, would provide tax breaks within urban enterprise zones. It would have added \$5.7 billion to the deficit, in violation of the BEA. It also contained numerous provisions that would add to the deficit outside the 5 year window of the BEA.⁵⁵ President Bush vetoed it the day after the election, and because Congress was not in session, it died.

In summary, Congress did not raise taxes to reduce the deficit, either within the budget process (pursuant to the budget resolution) or outside it. Both tax bills passed by Congress would have used new revenues for new spending and increased the deficit slightly. Because they failed, the BEA floor on revenues was retained. However, the recession diminished the impact of these revenues on the flow of funds to the Treasury.

Observations

The walls between discretionary spending categories held, while defense was cut below its cap. The deficit increased, providing confirmation that spending control in the BEA, although effective, was not deficit control. Table 4 illustrates changes in the BEA maximum deficit target, taken from the President's 1992 budget, the midsession review, and the President's Budget in January of 1993.

Table 4

BEA DEFICIT TARGETS

(dollar outlays in billions)

Year	<u>1990</u>	<u>1/1992</u>	<u>7/1992</u>	<u>1/1993</u>
1991	327	268.7	277.6	--
<u>1992</u>	<u>317</u>	<u>399.4</u>	<u>323.7</u>	<u>290.2</u>
1993	236	351.9	342.3	327.3
1994	102	211.4	274.8	292.4
1995	83	192.1	220.7	272.4

Sources: Budget of the United States Government Fiscal Year 1993 (Washington, D.C.: GPO, 1992), Table 2-3, Outlays, Revenues and Deficit, 25; Mid-Session Review: The President's Budget and Economic Growth Agenda, July 24, 1992, (Washington, D.C.: GPO), Table 2-18, Federal Government Financing and Debt, 25; Budget Baselines, Historical Data, and Alternatives For the Future 1993 (Washington, D.C.: GPO, 1993), Table 4.1, Baseline Estimates Under Alternative Assumptions.

The major reason why the deficit estimate dropped during 1992 was that Congress delayed in appropriating additional funds for the bailout of the savings and loan industry, shifting this payment to future years. In 1991, deficit estimates shrunk as a consequence

of the accumulation of and payment for Desert Shield/Desert Storm costs between fiscal years. Hidden in the maze of numbers for 1993 and beyond is a series of economic and technical adjustments, not new policy expenses.

Just as the macro deficit targets were adjusted for economic and technical factors, and for emergency bills, so too were the discretionary spending caps. The analyst who searches for the political system's performance against the original BEA caps as a measurement tool will be somewhat misled by these adjustments. Nonetheless, there was a discipline of a sort involved here and in the main the political system reacted responsibly to it, even if its actions were complex and hard to track by simple numerical indicators.

Table 1 indicates that final appropriations during 1992 were under the discretionary caps for all three discretionary categories by a total of \$16.2 billion in BA and \$10.1 billion in outlays. Although defense was the largest contributor to the amount under the cap, even domestic discretionary outlays met the cap limit for FY 1993. By this test, the BEA was a success in 1992.

Although defense was cut below its cap, it was not put in free fall. Testimony on the defense budget before the Senate Armed Services Committee was dominated by talk about defense as jobs. Senator John Glenn, Democrat of Ohio, warned the Committee that "we need. . . to ensure that as we downsize the military, we don't downsize our economy along with it."⁵⁶ Arguments about maintaining the defense industrial base became intermixed with not increasing

unemployment by canceling weapons systems; this was particularly true for the complex and expensive Seawolf submarine. It also became clear that downsizing a volunteer professional military was different from disbanding draftees once an emergency had passed. Although the defense budget would continue to drop sharply, hopes for even steeper cuts to bankroll an extended non-defense wish list were doomed to disappointment.

While the BEA's PAYGO provisions were effective in preventing new entitlements or tax breaks from increasing the deficit, they did not stop the escalating growth of entitlement expenditures already in the baseline, especially health care programs. The BEA thus secured an asymmetrical spending configuration. For example, Medicaid spending grew about 13 percent annually from 1985 through 1990, but that growth rate more than doubled to 28 percent in 1991 and grew another 30 percent in 1992.⁵⁷ Baseline estimates for the period from 1994 through 1998 indicate an increase of 82 percent.⁵⁸ Although Social Security cost growth projections are relatively modest (27 percent from 1994 through 1998), increases in Medicare costs rival Medicaid growth--a projected 77 percent increase over the five year period.⁵⁹ "Most budget experts now agree," according to Congressional Quarterly, "that the biggest potentially controllable cause of deficits is runaway spending for entitlement programs and that the biggest entitlement programs are Medicare and Medicaid."⁶⁰

Table 2 compares spending for discretionary and entitlement programs under the BEA for FY 1991-93. Discretionary accounts

shrunk as a percentage of total spending and as a percentage of GDP, while the entitlement accounts grew significantly, despite the absence of significant new programs and a general adherence to the PAYGO offset provisions. Programs in the entitlement baseline grew, some of them explosively. Had the designers of the BEA anticipated the dramatic expansion of these mandatory accounts, they might have put a look back provision in the BEA to review programs in the mandatory base which were experiencing cost acceleration.

Clarity Versus Control

Budgeting under the BEA in 1992, the final year of separate categories for discretionary spending, demonstrates an important trade-off. Spending control was achieved at the expense of clarity. Clarity had been served by the Congressional Budget Act of 1974, which provided regularity and information, and by Gramm-Rudman-Hollings, as a consequence of its focus upon a single deficit target each fiscal year. Clarity is diminished under the BEA, which involves ambiguities in targets, timing and policy.

Instead of a single deficit target, there are several, and they are adjusted twice annually. The caps on discretionary spending must be adjusted for emergency spending and technical factors--separately through FY 1993 and in the aggregate through FY 1995. Thus no single number is available to gauge the success of the process. Success must be measured in terms of a maximum deficit allowance, three discretionary spending caps and scoring of legislation subject to PAYGO (entitlements and taxes).

Supplemental appropriation bills are scored as either dire emergencies exempt from the caps and deficit targets, or against one of the discretionary categories. In all cases, both budget authority and outlay calculations are necessary. Finally, the maximum deficit amount is adjusted for economic, technical and policy changes, but most of the adjustments are so complex that the enlightened consumer has no recourse but to take OMB or CBO numbers as correct.

There are also ambiguities of time. The PAYGO provision has carry-overs from one year to the next, so that laws which decrease spending in one year are set against increases in the amount spent the next year. To further complicate scoring and accountability, President Bush signed certain PAYGO provisions after the OMB final sequester report had been issued, thus forcing the next President to determine whether to change the maximum deficit targets to avoid a sequester in early 1993. Hence in 1992, PAYGO spending was effected by what was done in 1991 while simultaneously binding what would be done in 1993. This accommodation to the fact that entitlements are not single year appropriation blurs the time clarity of the annual budget cycle.⁶¹

Examples of policy ambiguity may be found in defining emergencies such as unemployment insurance benefits and in scoring items as deficit neutral or as paid for by previous year balances or by administrative savings. In the case of veteran's education benefits in 1991, what would seem to be an entitlement was treated as an appropriation.

If clarity has been diminished, what control has been gained? The answer, according to CBO, is something very much like what the supporters of the BEA promised in 1990, i.e., an appreciable measure of deficit reduction: "If the changes in spending and taxes agreed to in 1990 had never happened, the deficits in 1991 through 1995 would be close to \$500 billion higher than current estimates."⁶² Where the BEA provided for control, control has been effective. Where control was not provided for, spending and revenue problems have continued to increase the deficit.

The continued rise in the deficit does not, in and of itself, implicate the BEA. The problem for the BEA is that the bar representing deficit reduction has been raised since 1990. A weak economy and rapid increases in spending for health care are the primary sources of higher deficit estimates. Neither of these factors fall within the controls established by the BEA. The BEA, Allen Schick has pointed out, "is a recipe for political accommodation, not for ending the deficit crisis."⁶³

Summary

The description of budgeting under the first year under the BEA works as well for the second: "Technical corrections were made which increased deficit estimates. However, a growing deficit neither dominated nor disrupted the budget process. . . abuses were resisted, and complex scoring and political scrimmages resulted."⁶⁴ The process was generally timely--the final appropriation bill was signed on October 5, 1992. No sequesters were necessary, although in at least one instance CBO advisory estimates indicated that a

small PAYGO sequester was in order.

More than 50 PAYGO provisions took effect, but only the two unemployment bills had significant budget or policy impacts. A notable attempt to evade the PAYGO deficit neutral discipline was found in legislation that would trigger increases in the deficit beyond the five year window of the BEA. Criticizing this evasive tactic, Allen Schick has noted that for elected officials, "anything short of forever isn't long enough."⁶⁵

Spending was controlled as required by the BEA; on the discretionary side of the ledger, where controls actually meant cuts, Congress actually exceeded the requirement of the BEA by funding defense below its FY 1993 cap.⁶⁶ For entitlements, OMB estimated that PAYGO legislation provided a nominal additional increment of deficit reduction for FY 1993.

Congress complied with the caps and walls on discretionary spending, and adhered to the prophylactic requirements affecting entitlement and revenue bills as well. However, deficit reduction, the result of defense cuts, was accompanied by increased estimates of future deficits. Table 3 indicates that the deficit would grow by 128.2 percent over the next decade. This was the consequence of slow economic growth and unanticipated spending for health care entitlements, which emerged as the primary expenditure problem.

Congress expended significant amounts of time and energy considering tax laws and the propriety of the walls separating defense from the other discretionary spending categories. The tax bills would have had little impact on the deficit, and in any case,

failed. The walls, symbolizing spending restraint and deficit reduction, were retained. Both the tax bills and the walls bill would have increased the deficit. While the budget controls prescribed by the BEA were rather faithfully implemented in 1992, the deficit continued to grow and the clarity of the budget process was diminished. Franklin's characterization of the BEA as "more than a failure and less than a success" seems appropriate.⁶⁷

1. For background on the BEA, see the following. Richard Doyle and Jerry McCaffery, "The Budget Enforcement Act of 1990: The Path to No Fault Budgeting," Public Budgeting and Finance (Spring 1991); Richard Doyle and Jerry McCaffery, "The Budget Enforcement Act in 1991: Isometric Budgeting," Public Budgeting and Finance (Spring 1992); Stanley Collender, The Guide to the Federal Budget Fiscal 1993 (Washington, D.C.: Urban Institute Press, 1992); Allen Schick, Five Reforms in Search of Budget Control: Congress Versus the Federal Budget, CRS Report for Congress, Jan. 1992; Daniel Franklin, Making Ends Meet: Congressional Budgeting in the Age of Deficits (Washington, D.C.: CQ Press, 1993); and Marvin Kusters, ed., Fiscal Politics and the Budget Enforcement Act (Washington, D.C.: AEI Press, 1992).

2. Allen Schick, "Deficit Budgeting in the Age of Divided Government," in Fiscal Politics and the Budget Enforcement Act, Marvin Kusters, ed., (Washington D.C.: AEI Press, 1992), 25.

3. Budget of the United States Government, Fiscal Year 1993, Supplement, (Washington, D.C.: GPO, February 1992) 4-7 (table 4-2).

4. From 1985 to 1992, defense had been cut 29 percent after inflation. Between FY 1993 and 1997, budget authority for DoD will drop an average of 4 percent after inflation every year. By FY 1997, the cumulative real decline in budget authority since FY 1985, the year of peak defense spending, will total 37 percent and the FY 1997 budget will have the same buying power as the 1960

budget. DoD active duty forces will be the smallest since before the Korean war and outlays for defense as a share of GDP will drop to 3.4 percent in FY 1997, below any period since before WWII. Office of the Assistant Secretary of Defense (Public Affairs), "DOD TO SLOW PACE OF MODERNIZATION, CUT STRATEGIC NUCLEAR ARSENAL WHILE MAINTAINING ESSENTIAL FORCES (Jan. 29, 1992) and Statement of General Colin Powell, Chairman of the Joint Chiefs of Staff Before the Committee on Armed Services, United States Senate, (Jan. 31, 1992).

5. U.S. Congress, Congressional Budget Office, An Analysis of the President's Budgetary Proposals for Fiscal 1993, March, 1992, 61.

6. Pat Towell, "Bush Expected To Cut Back On Warheads, New Weapons," Congressional Quarterly (Jan. 25, 1992): 180.

7. Newsweek, Feb. 10, 1992, 32.

8. Pamela Fessler, "With Cold War's Urgency Faded, The Senate Ratifies START," Congressional Quarterly (October 3, 1992): 3069.

9. Statement before the Committee on Armed Services, United States Senate, Jan. 31, 1992, 6.

10. Washington Post, March 22, 1992, 17.

11. Washington Times, March 1, 1992, B3.

12. Pat Towell and Andrew Taylor, "Aspin, Cheney Spar Face-To-Face But Stay Far Apart on Budget," Congressional Quarterly (Feb. 8, 1992): 322.

13. Washington Post, Feb. 28, 1992, 14.

14. George Hager, "Rescissions Top Bush's Target, Change What Will Get Cut," Congressional Quarterly (May 23, 1992): 1433-35.

15. See Doyle and McCaffery, "The Budget Enforcement Act in 1991," 3-15.

16. Ibid., 7.

17. Pat Towell and George Hager, "Soviet Union's Disintegration Spurs Call for Defense Cuts," Congressional Quarterly (Sept. 14, 1991): 2634.

18. Congressional Budget Office, The Economic and Budget Outlook: Fiscal Years 1993-1997, Jan. 1992, 42.

19. Janet Hook, "Democrats Look to Defense For Funds To Aid Soviets," Congressional Quarterly (Aug. 31, 1991): 2365.

20. Dewar, Helen, "Congress Seems Ready to Help Soviets, But How Is the Question," Washington Post, Sept., 4, 1991, 24.

21. Letter from Senator Robert to President George Bush, Dec. 11, 1991.

22. Budget of the United States Government, Fiscal Year 1993 (Washington, D.C.: GPO), 1992.

23. Les Aspin, then Chairman of the House Armed Services Committee, acknowledged this dilemma frankly: "Enthusiasm for cutting defense will be hard to sustain if there is no possibility of spending the savings on reinvestment and domestic programs." Letter from Congressman Les Aspin to Congressman Leon Panetta, Feb. 26, 1992, 2.

24. Statement of Robert Reischauer, Director, Congressional Budget Office, before the Committee on Armed Services, United States Senate, Feb. 19, 1992, 18-23.

25. Washington Post, March 6, 1992, 4.

26. New York Times, March 12, 1992, 12.
27. New York Times, March 1, 1992, E-2.
28. George Hager, "Rejection of Walls Bill Spells Spending Squeeze at Home," Congressional Quarterly (April 4, 1992): 866. Labor and HHS had \$4 billion in delayed obligations from FY 1992 which would be subtracted from their FY 1993 target, thus making the cap tighter, unless money could be 'borrowed' from another domestic discretionary account. Gramm-Rudman-Hollings did not have within year execution control--once a year was over, it was over. This provision of the BEA held committees accountable for what they did the previous year. Delaying obligations into the next year to fit under this year's cap decreased the amount of money the committee had available the next year. This discouraged contiguous year time shifting gimmicks like delaying obligations late in the year so that outlays would happen in the next year.
29. Washington Post, March 27, 1992 1.
30. The New York Times described this shift as "an openly cynical maneuver to breach the wall that separates military from domestic spending under the 1990 Budget Enforcement Act." Oct. 29, 1992, 26.
31. George Hager, "Senate Panel Takes Its Turn," Congressional Quarterly (June 20, 1992): 1775.
32. Schick, Five Reforms in Search of Budget Control, 23.
33. George Hager, "Surprise Vote Sounds Alarm For 1993 Spending Bills," Congressional Quarterly (June 20, 1992): 1774.

34. George Hager, "Spending Panels Begin Wrestling With '93 Budget Reality," Congressional Quarterly (June 6, 1992): 1589.
35. George Hager, "Surprise Vote Sounds Alarm For 1993 Spending Bills," 1774.
36. Congressman Leon Panetta, Chairman of the House Budget Committee, linked the fate of the walls bill to "the guilt of this institution," i.e., criticisms of the House bank and post office scandals. Hager, "Rejection of Walls Bill Spells Spending Squeeze at Home," 867.
37. Congressional Record, Oct. 7, 1992, S17281.
38. Ibid., S17283-84.
39. Robert Keith, "Budget Enforcement in 1992," Congressional Research Service Issue Brief, Oct. 14, 1992, 9.
40. Doyle and McCaffery, "The Budget Enforcement Act in 1991," 9, 13.
41. Jill Zuckerman, "Bill To Extend Jobless Benefits Rushes To Enactment," Congressional Quarterly (Feb. 8, 1992): 312.
42. Jill Zuckerman, "Bush Relents, Agrees To Sign Jobless Benefits Extension," Congressional Quarterly (July 4, 1992): 1961, 1963.
43. Unless existing entitlement programs are targeted for cuts, OMB director Darman noted, they are not reviewed. "'As a matter of budgetary management, this is preposterous; as a matter of public responsibility, this borders on the scandalous.'" Lawrence Haas, "Deficit Dynamics," National Journal (April 4, 1992): 803.
44. Budget of the United States Government, Fiscal Year 1993, (1992), part 1, 9, 16-17.

45. See Table 4, Deficit Impact of PAY-AS-YOU-GO Legislation Enacted as of October 21, 1982, OMB Final Sequestration Report to the President and Congress for Fiscal Year 1993, Oct. 23, 1992.
46. Zuckerman, Jill, "House Ignores Deficit Threat In Raising Earnings Ceiling," Congressional Quarterly (April 11, 1992): 954.
47. Restoring America's Future: Preparing the Nation for the 21st Century (serial no. CP-5), 1991.
48. Ibid., 20.
49. Congressional Record, April 10, 1992, S5414-63.
50. In its mid-session review, OMB dropped its FY 1992 deficit forecast to \$333.5 billion, primarily on the basis of Congress' failure to provide funds for the savings and loan bailout.
51. Budget of the United States Government Fiscal 1993, Supplement (Feb. 1992), Part One, 9.
52. For a description of these and other proposals to cap entitlement spending, see William Dauster, "Budget Process Issues For 1993," Journal of Law and Politics (IX 1992): 27-31.
53. Statement of Robert Reischauer, Feb. 19, 1992, 10.
54. David Cloud, "Final Push Clears Tax Bill; Bush Announces Veto," Congressional Quarterly (March 21, 1992): 712.
55. Viveca Novak, "Window Dressing," National Journal (Nov. 14, 1992): 2610-12.
56. Washington Post, March 26, 1992, 1.
57. Congressional Budget Office, The Economic and Budget Outlook: Fiscal Years 1994-1998, Jan. 1993, 47.
58. Ibid., 48.

59. Ibid.
60. Pamela Fessler, "Beyond the Campaign," Congressional Quarterly (Sept. 26, 1992): 2891.
61. The BEA required a five year budget resolution through 1995, enforceable through points of order on the floor. In this sense it could be argued that the law attempted to provide a multi-year macro budget and improved time clarity. However, this effect operates only at the macro level.
62. Congressional Budget Office, The Economic and Budget Outlook: Fiscal Years 1994-98, Jan. 1993, 85.
63. Five Reforms in Search of Budget Control, 23.
64. Doyle and McCaffery, "The Budget Enforcement Act in 1991," 12.
65. Novak, "Window Dressing," 2610.
66. Hence Franklin is wrong in concluding that no savings under the BEA caps will go to deficit reduction (Making Ends Meet, 219) and Schick's characterization of the defense cap as a floor as well as a ceiling is also mistaken ("Deficit Budgeting in the Age of Divided Government," 32.)
67. Making Ends Meet, 232.

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